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Slaughter of the healthy

Proceeds of disinvestment should be made available to the concerned PSU, says **Uttam Gupta**

EVEN as the government has been mercilessly appropriating the proceeds of disinvestment of its equity holding in central undertakings for reducing its fiscal deficit, there are subtle moves to legitimise this practice. The finance ministry has reportedly taken the stand that the government has overall responsibility to the PSUs as a whole and that sick units should receive priority in the matter of budgetary support.

The purported logic for carving out a special dispensation for the sick undertakings is that whereas the profit-making companies can tap other sources like internal generation and market borrowings etc, the sick units have no alternative but to bank on government support.

Considering that the point is being made in the context of deciding whether or not the funds from disinvestment of government equity should come back to the concerned enterprise (Rangarajan committee has, in fact, recommended that funds should go to the latter), it is clear that the government is in no mood to give them the money. Instead, it proposes to utilise the money for helping the sick units.

In the context of sick units, three questions are important. First, whether the government is really providing them funds that would facilitate their rehabilitation. The answer is a categorical 'no'. Even as the support for revenue spending has continued, hardly any funds are provided for investment in modernisation and replacement. This is despite the government getting substantial funds through the disinvestment route during the past four years.

Second, even amongst the sick units, there are some which cannot be turned viable even after rehabilitation. And, yet, these are continuously sucking funds. Revenue spending in potentially viable undertakings may have some rationale although, in these cases too, there is need for timely action by way of revamping and modernisation of the plants. But such spending in potentially unviable units is a downright waste. The government has no clear-cut priorities on this even as the money is spent indiscriminately on all categories of enterprises most of it on providing wages and salaries.

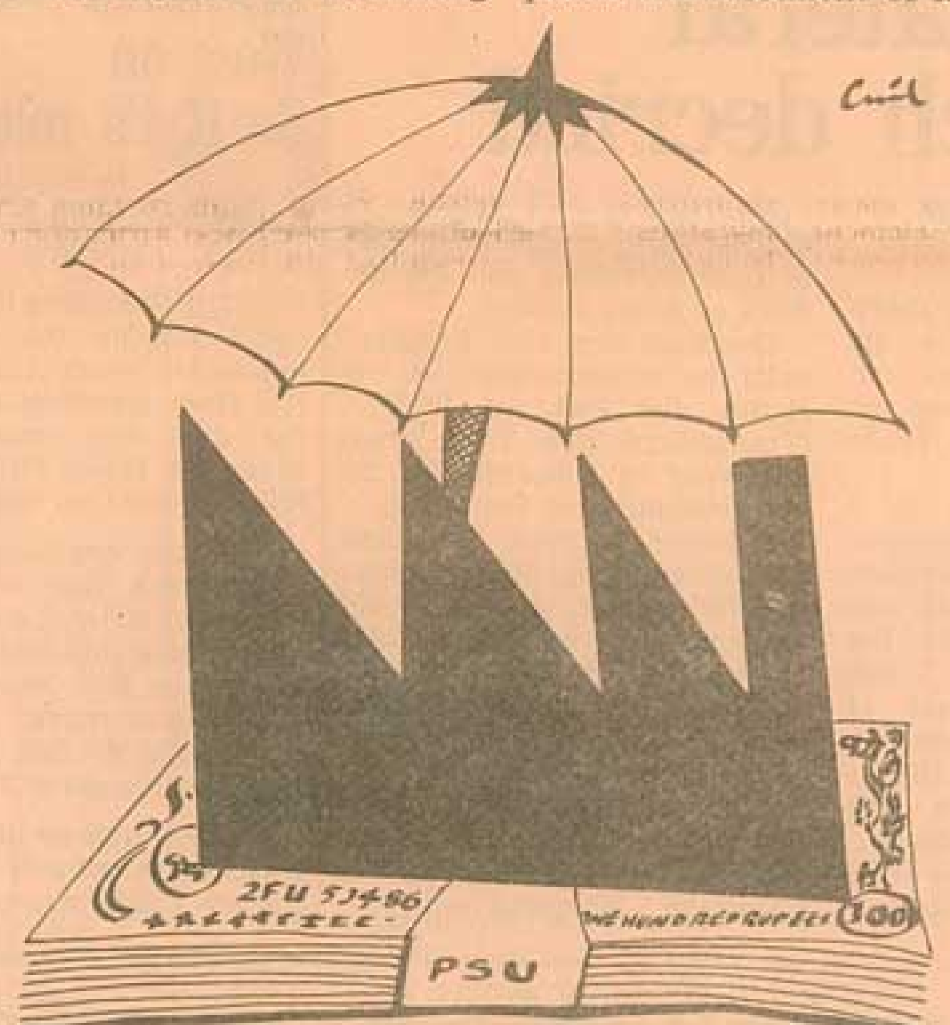
In the context of rehabilitation of the ailing HEC, more than the most critical question of how to arrange funds to make the package work, the industry ministry is keen to secure Rs 100 crore by way of grant from the finance ministry to pay for the wages and salaries. No doubt, the management must take care of the manpower, but, at the same time, machines should not be neglected. Let it be clear that in the absence of the latter, it would even be impossible to support the former on a sustained basis.

Third, it is wrong to say that sick units are not capable of mobilising resources on their own and that there is no option other than budgetary support. The NTC case bears ample testimony to this. The government has estimated the realisable value of the surplus land and real estate at about Rs 2,600 crore which even exceeds the requirements of implementing the rehabilitation package.

The position is no different in a majority of other central undertakings as land and other forms of real estate for them were acquired long ago and, over the years, there has been substantial appreciation in their market value. Unfortunately, the problem is lack of will to do things and vested interests. With Maharashtra government asking BIFR to hold up the sale of NTC land in Bombay, it is unlikely that the rehabilitation programme, which is so critically dependent on funding from sale proceeds, will even take off.

All this exposes the hollowness of the government's claim that it is serious about revival and rehabilitation of the sick units, much less utilising the funds garnered from divestment of its equity in profit-making undertaking productively.

In projecting the fiscal deficit for 1995-96, the government has taken credit of Rs 7,000 crore — that being the likely proceeds from the contemplated disinvestment of its equity in PSUs. How then, can it talk of using the money to help sick units?



It is also misleading to presume that the profit-making undertakings have too much money of their own and have access to other sources of funding e.g, borrowings. Comparison with their sick counterparts is a meaningless exercise. We must look at their needs and resources they can arrange from all sources put together.

From this angle, invariably all the so called profit-making enterprises are substantially short of funds even in relation to the modest plan outlays proposed in the Union budget for 1995-96. Whereas the overall budgetary support is a meagre 13 per cent, in sectors like energy and communications, the government has completely washed off its hand and expects the concerned undertakings to fund the entire outlay out of the internal and extra budgetary resources.

It should be recognised that apart from insufficient internal generation out of profits, the scope for market borrowings is also extremely limited.

External commercial borrowings have been allowed for the public sector in the infrastructural industries, but there is an overall ceiling and there are too many competitors for these limited funds.

The government may argue that being the sole owner of these undertakings, it is free to do whatever it wishes with the proceeds of the disinvestment. Speaking from a legal point of view, this cannot be contested. But, we should not ignore a more fundamental point. Initially, when these enterprises were established, the funding was essentially from public money. The government was merely the custodian of these funds. Now, when the government is realising the value of these funds, how can these be used for supporting its own consumption expenditure?

There is another side of the same coin. An ordinary shareholder who parts with his funds to buy ownership in the government undertaking does so in the expectation that the undertaking would do well, generate profits and give him a reasonable dividend. It needs to be clarified that he is not lending the money to the undertaking and, consequently, is not entitled to earnings by way of interest.

Safety of his investment as well as expectation of regular dividend income is thus inextricably linked to the profitability of the company. In this background, if the government appropriates the proceeds, utilises them for its own consumption expenditure and provides no budgetary support, how can the undertaking do well, make profits and distribute dividends? That would be a breach of trust.

From the government's own resource position also, it is in its interest to give the money to the concerned undertaking for reinvestment.

It is imperative that the government stops vacillating on the issue and makes a categorical commitment to make the entire proceeds of disinvestment available to the concerned company as recommended by the Rangarajan committee.